

1. The Original Form of ZBB

Zero-base budgeting was designed as a tool to control expenditures through identifying the purpose and measuring the effectiveness and efficiency of activities. The form created for the federal government in the late 1970s included these steps:²

Identification of a decision unit: A program, activity or organizational entity. These should be small enough for good analysis, but not so small and numerous that they overwhelm the budget process.

For each decision unit, managers identified a decision package built on four funding levels:

- a) The minimum essential to program viability;
- b) The current or maintenance level;
- c) An intermediate amount, between the minimum and current levels; and
- d) An enhancement level—additional funding for increased services.

Decision packages included statements of intended agency results, preferably quantified; measures of workload, efficiency and effectiveness; and budget requests.

Ranking of decision packages by order of priority within managers' area of control, guided by policy directives from the managers' supervisors.

Passage of decision packages up the administrative chain for additional review, prioritization, revision, consolidation or deletion.

Consolidation as the basis for budget requests.

The process the federal government actually put in place was paper-intensive (in those pre-computer days of the late 1970s) and relatively light in critical analysis. In 1979, the U.S. Government Accounting Office could find little evidence that ZBB had improved the federal budget process. It recommended less paperwork, fewer decision packages and more analysis, fewer funding options and less rigidity. The Reagan administration (which succeeded the Carter administration in 1981) preserved some elements of ZBB in the form of alternative funding options from agencies, focusing on prioritization of activities as agency budgets were reduced.³

The original form of ZBB has been widely attacked as unworkable. Even the advantages which President Carter claimed it had brought to Georgia when he was governor appear to have been exaggerated. It was not possible to assimilate the ZBB focus or decision packages in the state budget process and its techniques were not useful in allocating resources. Federal efforts have been termed "an exercise in futility."⁴ Some of the disadvantages of ZBB are:

It is difficult to apply usefully to entitlement programs and to continuing functions of government like public education.

The process can create extreme competition and conflict over resource allocation.

The process can be time-consuming and expensive.⁵

2. ZBB as Alternative Budgeting

At the end of the 1970s and in the early 1980s, states developed a simplified form of ZBB to address the fiscal difficulties of the time. This form omitted decision units, decision packages and multiple rankings as decision making rose through agency ranks.

States turned ZBB into *alternative budgeting* (also called *target budgeting*), in which agencies were instructed to make budget requests at various percentages of their previous budget—for example, at 90 percent, 100 percent and 110 percent—and to analyze the effect of those levels on agency programs.

This highly simplified version of ZBB was widespread in state budgeting at the time. It was not a radical departure from traditional state budget processes, and was a useful tool when budgets had to be cut or resources reallocated from agency to agency. The nominal link to ZBB gave alternative budgeting prestige and novelty, but it did not involve difficult changes in established procedures, or greatly increase bureaucratic work. This form avoided the priority rankings that had been a major feature of the original federal form of ZBB. In practice, alternative budgeting was used mainly to evaluate the ways agencies and programs would adapt to reduced resources.

This meant that the zero-base evaluation of state agencies had disappeared and that what had started out as a state model of ZBB had evolved into a form of budgeting probably as old as budgeting itself—the consideration of alternatives. Whatever it may be called, this is a fundamental responsibility of executive and legislative budgeting. For a time it was formalized with specific levels of alternative proposals and given the name of ZBB, but the useful practice continues without the name.⁶

3. ZBB as a Periodic Agency Review

It is probably true that state government cannot adapt to a budgeting process that calls for justification of every activity and program annually or biennially: at least, no state has been able to do so. State governments are not in a position to reconsider subsidies to school districts or Medicaid support annually. The apparatus of ZBB involves multiple layers of activity description, analysis and recommendations which would be unwieldy in the smallest state government, let alone a state whose annual spending reaches \$50 billion, \$60 billion or \$70 billion a year. The required analysis is time-consuming for agencies, legislative staff and legislators.

For those reasons, most recent efforts to adopt ZBB in state governments have called for a periodic ZBB analysis of state agencies. They suggest a cycle that would cover from four to eight years, after which it would be repeated.

Florida enacted an eight-year cycle of ZBB agency reviews in 2000 and began the reviews in 2001.

Oklahoma legislation of 2003 that mandated ZBB called for a four-year cycle of legislative ZBB reviews of state budgets.

Governor Butch Otter began ZBB in Idaho in 2009 by executive order, laying out a six-year rotation of agency budget reviews and justifications.

The Florida legislation designed a joint legislative-executive process for agency review in the months the legislature was not in session. Legislators and teams of analysts from the House, Senate, the Legislature's program analysis agency and the executive budget agency worked on a fundamental examination of the scheduled agencies.

The Oklahoma process was legislatively driven, in keeping with the strong legislature/weak governor approach to budgeting in that state. A joint interim committee was directed to conduct the ZBB reviews assisted by fiscal staff from both chambers.

Governor Otter's plan for Idaho was executive focused. It called for reviewing and justifying each agency's budget on a six-year schedule. The Idaho plan is just getting underway and it is too soon for any evaluation of the process.

Although both Florida and Oklahoma have abandoned ZBB, periodic ZBB agency reviews hold great potential value. Both those states' periodic reviews foundered in part because of the complexity of the reviews and the great amount of material the reviewers had to assimilate. A periodic review of agency purposes, procedures and productivity, in more depth than the annual appropriation process allows, could be valuable for the executive branch and the legislature. It would not have to be in the form of the original federal version of ZBB with all the complexity of decision packages and multiple reviews. Probably the chief limits on legislatures' ability to carry out such reviews are the demands they would make on legislators' time, and legislative staff resources.

4. The Appeal of ZBB Continues

Legislation calling for ZBB was introduced in 15 states in 2009, and in at least two states in 2010. They included a mix of small and large states—Iowa, Kansas and South Carolina among the smaller states, and California, Georgia, Illinois and Ohio among the larger states. Seventeen states have reported its use in some form, and as already noted, a number of states have made serious efforts to put ZBB into effect in recent years. In addition, in 2006, Governor John Lynch of New Hampshire ordered all state agencies to use a ZBB approach in building budget requests for fiscal years 2008 and 2009.

On the other side of the coin, none of the 2009 or 2010 legislation passed. In analyzing proposals in Illinois, the Legislative Research Unit has pointed out that is hard to find evidence of ZBB in most of the 17 states that report its use.⁷ Aside from the recent executive orders to use ZBB in Idaho and New Hampshire, it is not clear that any state uses ZBB as its primary budgeting technique.

An Iowa ZBB program at the beginning of this century and the Oklahoma ZBB plan have been substantially reshaped into performance budgeting. Idaho's ZBB efforts are too new to be evaluated. Florida abandoned zero-based reviews within three years of having begun them in 2001. The Florida ZBB work produced reports of great thoroughness and usefulness. It was also expensive and time-consuming, and as legislative priorities shifted, it was discontinued after the third round of ZBB reviews.

Oklahoma's experience is instructive as another serious effort to use ZBB as a budgeting tool. After the legislation was adopted in 2003, the legislature set up a joint committee to conduct ground-up reviews of state agencies in a four-year cycle. The Department of Education, which distributes and oversees aid to school districts, was one of the initial agencies. The time it took to explain the structure and responsibilities of the department exhausted the committee. The process was valuable to legislators for all they learned, but it was so time-consuming they never reached the point of considering money. Since that time the Legislature has voted three times to repeal ZBB, by bipartisan majorities. In practice, it is not used by either the Legislature or the executive branch.

5. Lessons Learned

ZBB responds to a serious and widespread desire to look at public budgeting in a fresh way, free of old assumptions, and make a new beginning. Past experience does not control the future. What can be learned from the kinds of experience related here?

A proposal to adopt ZBB should be clear on whether it is expected to be an analysis of all government, a tool to respond to a fiscal crisis, or a periodic, revolving review of state agency operations and budgets.

In any of its forms, ZBB is likely to be an elaborate and time-consuming process, and can add complexity to the current budget process.